



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 4, 1985

LEGISLATIVE REFERRAL MEMORANDUM

SPECIAL

LEGISLATIVE LIAISON

85-2629

TO: Legislative Liaison Officer

Office of Personnel Management (Bob Moffitt, 632-6516)
Central Intelligence Agency

SUBJECT: State Department testimony for 9/9 on S. 1527,
Supplemental Retirement.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than noon, September 5, 1985.

Questions should be referred to Hilda Schreiber
(395-7362) ~~or to~~-----
the legislative analyst in this office.

Naomi R. Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures

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DRAFT

STATEMENT OF
GEORGE S. VEST, DIRECTOR GENERAL OF THE FOREIGN SERVICE
AND DIRECTOR OF PERSONNEL, DEPARTMENT OF STATE
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
ON S. 1527, THE CIVIL SERVICE PENSION REFORM ACT,
SEPTEMBER 9, 1985

The Secretary of State has asked me to represent him at these hearings on the design of a retirement system for Federal employees covered by Social Security. We appreciate this opportunity very much. Retirement provisions are essential to any personnel system, and are especially so for the Department of State which has employees under two statutorily distinct retirement systems--Civil Service and Foreign Service.

We believe that S. 1527, the Stevens-Roth bill, is a constructive effort to make the new Federal retirement system both fair and equitable to participants and financially sound as well. The three-tiered structure of benefits should accommodate the retirement planning goals of a wide variety of

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Federal employees with different career patterns. The bill's provisions for a thrift plan with employer matching of employee contributions are a particularly attractive feature. Thrift plans are, of course, an established part of many private sector retirement plans. It is our belief that offering access to a thrift plan may make Federal employees more mobile, and generally encourage more movement back and forth between private and public sector employment. Such a development would be beneficial to all concerned. Moreover, the thrift plan could give a boost to capital formation and thereby aid in maintaining and expanding the national economy.

Our overall impression of the bill is thus very positive. In fact, my principal reason for being here today is to request that this Committee consider including Foreign Service personnel under Stevens-Roth.

The basic framework of the bill will be beneficial to both Foreign Service and Civil Service employees of the Department of State. Since we have appreciable numbers of employees who convert from the Civil Service to the Foreign Service in mid-career, and vice-versa, the Department of State has a management interest in seeing a similar retirement structure for each personnel system. Employees currently can transfer either to or from the Foreign Service with no major effect on

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their entitlement to retirement benefits; we would not be well served by a Foreign Service system structured significantly differently from the general Civil Service system.

In looking at the Stevens-Roth bill, we believe that the Foreign Service clearly should be regarded as a "special category" of employment, as are air traffic controllers, firefighters, and law enforcement officers. I would note that the Foreign Service retirement system, like those of the other special groups, allows optional retirement earlier and with fewer years of service than the existing Civil Service system. In our case, Foreign Service employees may retire at age 50 with 20 or more years of service.

There are two overriding and related reasons for these existing Foreign Service provisions. First, we need to retire mandatorily the less competitive, as determined by management, to ensure that the highest standard of performance in foreign policy analysis and overseas representation is guaranteed. Foreign Service personnel are subjected to increasingly rigorous competition with their peers in the course of their careers, with the result that some employees are retired involuntarily each year, for failure to be promoted to the next higher grade or class within a specified time period. This "time-in-class" limitation requires officers who are performing

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competently at their current grade level, but who are not sufficiently competitive to advance to higher levels to be retired.

Second, we must provide through early retirement an exit, other than for substandard performance, for those who are no longer able to serve abroad. The Foreign Service is an arduous and dangerous life; those who, after a long and valued career, cannot continue to meet those challenges should be able to retire voluntarily, without being selected out for substandard performance.

Our workforce analyses indicate that an appreciable number of those potentially subject to retirement for "time-in-class", both now and into the future, will be between the ages of 50 and 55. These employees typically would have about 25 years of service. The Stevens-Roth special category rules would allow such employees to receive an immediate annuity, but the income replacement at time of separation would be quite small compared to the current situation: an involuntary retiree aged 50 with 25 years service would receive an annuity of about 18 percent of his salary under Stevens-Roth, as opposed to about 50 percent under the current system.

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I do not believe that we could continue to operate involuntary retirement for time-in-class under such conditions. Frankly speaking, such a small benefit would be perceived as harsh and inequitable, and managers and supervisors would be likely to change their personnel management decisions in order to shield employees from selection out, thereby defeating the basic purpose of the selection-out mechanism.

It is necessary in our view, then, to give some special attention to employees who retire before the age of 55. We believe that the Foreign Service should retain its existing retirement threshold, allowing retirement without annuity reduction at age 50 with 20 years service. This age and service requirement conforms to that which has been proposed by OPM Director Horner for all special categories of employees.

It might also be desirable to consider allowing agencies to pay the supplemental payment in lieu of Social Security to all special category employees from the time of retirement, rather than solely from age 55 to age 62. I believe that the provision of one or more of these income supplements would allow the Foreign Service to harmonize the new retirement system with its existing selection-out system. I hope that we can work together on these special points of concern.

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The Committee should also be aware that the Foreign Service system differs from the Civil Service system in several other respects, such as its treatment of the rights of former spouses to annuities, pay provisions for reemployed annuitants, and certain benefits for foreign national employees. Each of these existing differences would need to be addressed in development of a final bill.

I would draw your attention to one other feature of the Foreign Service Retirement System: the Department of State currently administers the system, rather than the Office of Personnel Management, and a separate retirement trust fund is maintained for the Foreign Service by the Department of the Treasury. Presumably the separate fund will continue in existence for those pre-1984 Foreign Service employees who do not elect to transfer into the new system, and the Department will continue to administer the Foreign Service system at least for those employees.

We believe that the most sensible arrangement would be to maintain a separate trust fund for Foreign Service appointees under the new system, as well. We already have an expert and efficient retirement and disability staff in place, fully capable of managing the new system as well as the current one. It has several times been viewed as a model for the rest of

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Government, including by the Congress. This staff handles retirement and disability claims not just for the Department of State, but for all five agencies using Foreign Service appointing authorities.

Transferring retirement responsibility to the Office of Personnel Management and disability claims to private insurers for new system employees would probably require additional resources without any fully corresponding savings for the Department. Moreover, the division of responsibility between the Department and OPM as regards verifying service, financial accounting, and retirement counseling for transferees from the old to the new system would create a bureaucratic nightmare that would serve no one's interest. Similar problems would arise in trying to transfer disability responsibility, with the added problem of finding private insurers versed in assessing disabilities arising from diseases or environmentally induced illnesses arising from service worldwide. We do now have and will continue to have a medical staff that includes specialists in these areas, whose duties now include making disability determinations. All in all, we believe that it would be far superior to preserve the existing retirement management arrangements for the Foreign Service system.

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I have dwelt at some length on special treatments needed to make the Stevens-Roth retirement structure mesh with the Foreign Service personnel structure. But let me emphasize that I believe the effort to be well worthwhile. The world has changed immeasurably since Federal retirement legislation was put in place; it is now time to bring our treatment of retirement in line with those changes in the world. We must recognize that our young employees of today, those after all who have the most to gain or lose from this legislation, have a different outlook, a different set of assumptions about career mobility and change than the employees of two generations ago for whom the existing systems were designed. The bill under consideration by this committee does recognize that important fact. We believe that the bill will benefit the government, the employees, and the taxpayers of this country and we support it.

SEP 4 1985

MEMORANDUM FOR: Chief, Legislation Division,
Office of Legislative Liaison

ATTENTION:

[Redacted]

FROM: Robert W. Magee
Director of Personnel

SUBJECT: Draft Postal Service Testimony on S. 1527

REFERENCE: Memo frm C/LD/OLL to Multiple Addressees,
dtd 28 Aug 85, Same Subject (OLL 85-2559/1)

Attached is a proposed response to OMB on the Draft Postal
Service Testimony on the Stevens/Roth supplemental retirement
bill S. 1527.

[Redacted]

Robert W. Magee

Attachment:
a/s

Central Intelligence Agency



Washington, D.C. 20505

Mr. James M. Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Frey:

This is in response to your request for the Agency's review and comments on the draft Postal Service testimony on the Senators Roth/Stevens supplemental retirement bill, S. 1527.

The Agency has no objection to the proposed testimony as it relates to the needs of the Postal Service. However, the needs of the Postal Service are not the same as that of this Agency where, because of our special missions, a retirement system is required that includes provisions designed to serve Agency management as an essential and secure work force management tool.

The proposed Postal Service testimony points out the different needs for their basic Postal service coverage vis a vis their special Postal Inspection service. This highlights the difficulty of applying one retirement system across many organizations with different missions and employment requirements. To this end the specifics of the features of a retirement system that would most effectively serve the Agency's needs have been forwarded by the DCI to the Acting Director, Office of Management and Budget and are currently under discussion with your organization.

Sincerely,

Charles A. Briggs
Director, Office of Legislative Liaison

OLL 85-2559/1
28 August 1985

MEMORANDUM FOR: D/OP
C/ALD/OGC

STAT FROM:


Chief, Legislation Division/OLL

SUBJECT: Draft Postal Service Testimony on S. 1527

1. Attached for your review and comment is the Postal Service's testimony on Senator Stevens' supplemental retirement bill, S. 1527. The Postal Service is highly supportive of Mr. Stevens' bill and, with certain limited exceptions, endorses each of its major features.

2. We must respond to OMB concerning the attached testimony by 4/3 September 1985. I thus would appreciate your comments on this testimony by noon on this same date.

STAT

Attachment
as stated

STATEMENT OF DAVID H. CHARTERS
ASSISTANT POSTMASTER GENERAL, EMPLOYEE RELATIONS DEPARTMENT
ON S.1527
BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

September 9, 1985

Good morning. My name is David Charters, Assistant Postmaster General, Employee Relations Department, and I am here representing Postmaster General Paul N. Carlin. I am accompanied by Thomas S. McCall, General Manager of our Compensation Services Division.

We appreciate the opportunity to testify and would like to begin with what we consider the four major ingredients for a good retirement program for postal employees. The program must:

- (1) Be fair, and actuarially sound.
- (2) Be reasonably economical and fair to the postal rate payers who help finance it.
- (3) Help to attract and retain the high quality employees we need to serve the public.
- (4) Generate sufficient predictable income for retirees to enjoy a reasonable standard of living.

The proposed bill, we believe, substantially contains the above ingredients.

Our overall reaction to the bill is that it is a sound, well-constructed plan, which would be attractive to new employees. While the bill offers the greatest benefits to the long career employees, it will also provide retirement alternatives for employees seeking more flexibility. It provides portability through Social Security and the opportunity for a departing employee to withdraw his thrift account prior to retirement and roll it over into an IRA, thus never losing the value of that part of the plan.

WE BELIEVE THAT ANY RETIREMENT PROGRAM SHOULD HAVE A DEFINED BENEFIT TO ALLOW EMPLOYEES TO PROJECT, IN ADVANCE OF RETIREMENT, THE LEVEL OF RETIREMENT INCOME THEY CAN EXPECT, THEREBY PROVIDING THE OPPORTUNITY FOR THE EMPLOYEE TO DECIDE IF HE NEEDS OR WANTS A LARGER RETURN THAN THAT PROVIDED. THE BASIC PLAN PROVIDES THIS NEEDED DEFINED BENEFIT.

THE REPLACEMENT RATE OF AN ANNUITY SHOULD IDEALLY BE AN AMOUNT EQUAL, AFTER TAXES, TO THE TAKE HOME PAY RECEIVED IMMEDIATELY PRIOR TO RETIREMENT. WHEN AN EMPLOYEE RECEIVES THIS AMOUNT IN RETIREMENT INCOME, THERE IS NO NEED TO CHANGE HIS STANDARD OF LIVING. THE REPLACEMENT RATE VARIES DEPENDING ON THE EMPLOYEE'S LEVEL OF INCOME. NORMALLY, IT WILL BE IN THE RANGE OF 65 TO 75 PERCENT, WITH THE HIGHER RATE APPLICABLE TO LOWER INCOMES. THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM DOES NOT PROVIDE THIS LEVEL OF REPLACEMENT UNTIL AN EMPLOYEE HAS 35 OR MORE YEARS OF SERVICE. THE PROPOSED BILL PROVIDES THE OPPORTUNITY FOR AN EMPLOYEE TO ACHIEVE OR EVEN EXCEED THE DESIRED REPLACEMENT RATE THROUGH PARTICIPATION IN THE THRIFT SAVINGS PLAN.

WE BELIEVE THAT AN EMPLOYEE HAS AN OBLIGATION, INDEED A RESPONSIBILITY, TO BECOME INVOLVED IN PREPARATION FOR EVENTUAL RETIREMENT. THE THRIFT SAVINGS PLAN PROVIDES THIS OPPORTUNITY. THE TAX-DEFERRED STATUS OF INDIVIDUAL CONTRIBUTIONS TO THE THRIFT SAVINGS PLAN, PLUS THE EMPLOYER'S MATCHING CONTRIBUTION UP TO 5 PERCENT, SHOULD PROVIDE AN INCENTIVE FOR INDIVIDUALS TO

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PARTICIPATE IN THE THRIFT PLAN. OUR ONLY CONCERN WITH THE THRIFT SAVINGS PLAN IS WHETHER OUR EMPLOYEES, WHO PREDOMINATELY ARE IN THE \$20,000 TO \$30,000 INCOME RANGE, WILL VIEW THEIR NEED FOR CURRENT INCOME AS GREATER THAN THEIR NEED TO PLAN FOR RETIREMENT. WE BELIEVE THAT THE ABILITY TO CHANGE THEIR CONTRIBUTIONS TO THE THRIFT SAVINGS PLAN ANNUALLY WILL ALLEVIATE SOME OF THE ADVERSE EFFECTS THAT COULD RESULT FROM AN INITIAL CHOICE IN FAVOR OF CURRENT INCOME RATHER THAN RETIREMENT SECURITY. THE THRIFT PLAN'S ABILITY TO MAKE HARDSHIP LOANS SHOULD ALSO ASSIST IN GREATER PARTICIPATION.

WE ALSO NOTE THAT THE PROPOSED PLAN, WHILE ALLOWING RETIREMENT PRIOR TO AGE 62, CONTAINS PENALTIES FOR THOSE WHO RETIRE AT ANY AGE PRIOR TO 62. SINCE THE AVERAGE POSTAL EMPLOYEE CURRENTLY RETIRES AT 61.7 YEARS OF AGE, WE DO NOT BELIEVE THIS PROVISION WILL HAVE A DRAMATIC IMPACT ON POSTAL SERVICE EMPLOYEES.

WE BELIEVE THE LONG-TERM DISABILITY BENEFIT PROVIDED TO EMPLOYEES WHO ARE UNABLE, DUE TO SICKNESS OR INJURY, TO PERFORM THE DUTIES OF THEIR JOB IS AN EXCELLENT BENEFIT THAT IS NOT CURRENTLY AVAILABLE. WHILE INJURY COMPENSATION PROVIDES FOR THOSE INJURED ON THE JOB, THERE IS CURRENTLY NO CORRESPONDING PROTECTION FOR THOSE WHOSE ILLNESS OR INJURY IS ^{NOT} ~~NON~~ JOB-RELATED. THIS PROTECTION WILL BE PARTICULARLY BENEFICIAL TO THE SHORT SERVICE EMPLOYEE WHO HAS AN EXTENDED ILLNESS AND CURRENTLY RECEIVES NO INCOME AFTER EXPENDING ^{HIS} ~~THEIR~~ ACCRUED SICK LEAVE.

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WE ARE ALSO IN FAVOR OF THE REQUIREMENT THAT INDIVIDUALS RECEIVING DISABILITY BENEFITS WILL BE SUBJECT TO PERIODIC MEDICAL REEVALUATION AND WILL BE REQUIRED TO REPORT THEIR EARNINGS EACH YEAR. THESE FEATURES SHOULD ASSIST IN THE IDENTIFICATION AND TERMINATION OF BENEFITS FOR ANY QUESTIONABLE DISABILITIES THAT MAY EXIST.

THE PROVISION TO PROVIDE BASIC LIFE INSURANCE, AT NO COST TO EMPLOYEES, IS ONE WE SUPPORT. AS YOU KNOW, THE POSTAL SERVICE HAS PROVIDED BASIC LIFE INSURANCE TO ALL CAREER EMPLOYEES, WITHOUT CHARGE, SINCE JULY 1974.

WE FIND THE TRANSITION PROVISIONS SOMEWHAT UNCLEAR WITH REGARD TO PARTICIPANTS IN THE CURRENT CIVIL SERVICE SYSTEM WHO MAY ELECT TO PARTICIPATE IN THE NEW CIVIL SERVICE PENSION SYSTEM. WHILE WE HAVE NO RECOMMENDATIONS AS TO ENTITLEMENT, SHOULD AN EMPLOYEE CHANGE SYSTEMS, WE STRONGLY URGE THAT ALL ENTITLEMENTS BE VERY CLEARLY AND SPECIFICALLY SPELLED OUT. THE DECISION WHETHER TO CHANGE SYSTEMS WILL BE A COMPLICATED AND DIFFICULT ONE FOR MOST EMPLOYEES. WE RECOMMEND THAT THESE INDIVIDUALS RECEIVE ACTUARIAL ADVICE AS TO WHAT HAPPENS TO THEIR RETIREMENT TO ASSIST THEM IN MAKING THEIR DECISION.

WE ARE IN AGREEMENT WITH THE CONCEPT THAT THE BASIC PLAN BE FULLY FUNDED. AS YOU ARE AWARE, THE POSTAL SERVICE CURRENTLY MAKES PAYMENTS FOR THE UNFUNDED LIABILITY PORTION OF THE CIVIL SERVICE

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RETIREMENT SYSTEM ATTRIBUTABLE TO GENERAL SALARY INCREASES FOR EMPLOYEES. THE PROPOSED BILL REQUIRES SUPPLEMENTAL LIABILITY PAYMENTS, SHOULD THEY BE NECESSARY, FROM NOT ONLY THE POSTAL SERVICE BUT ALSO THE REST OF THE FEDERAL GOVERNMENT. WE DO, HOWEVER, HAVE ONE MAJOR CONCERN WITH THE BILL IN THE AREA OF FUNDING. THE BILL, AS PROPOSED, WILL PERMIT OPM TO MAKE A UNILATERAL DETERMINATION, WITHOUT NOTICE, OF WHAT WILL BECOME A MAJOR ELEMENT OF COST TO THE POSTAL SERVICE AND A PRINCIPAL COMPONENT OF POSTAGE RATES. WHILE OTHER AGENCIES WILL PAY THESE COSTS FROM APPROPRIATIONS, THE POSTAL SERVICE MUST LOOK TO POSTAGE REVENUES FOR THE NECESSARY FUNDING. THE POSTAL SERVICE DOES NOT HAVE THE AUTHORITY TO INCREASE POSTAGE RATES EITHER UNILATERALLY OR IMMEDIATELY. OUR ABILITY TO PLAN TO MEET OUR OBLIGATIONS AND OUR CONFIDENCE IN WHATEVER BILLINGS WE RECEIVE ARE DEPENDENT ON RECEIVING SUFFICIENT ADVANCE NOTICE OF PROPOSED CHARGES AND THE OPPORTUNITY FOR OUTSIDE IMPARTIAL REVIEW OF UNDERLYING ASSUMPTIONS AND DATA. THESE ITEMS ARE VITAL IF WE ARE TO FULFILL OUR OBLIGATIONS IN THE AREAS OF POSTAL RATES AND FISCAL RESPONSIBILITY, AS REQUIRED BY LAW.

IN ADDITION TO THE COST ASPECTS OF THE PLAN, THERE ARE CERTAIN BENEFIT ISSUES THAT CONCERN US. THE LACK OF ANY ANNUITY FROM THE BASIC FUND FOR DEPENDENT CHILDREN OF A DECEASED EMPLOYEE IS ONE OF OUR CONCERNS. WHILE WE ARE AWARE THAT SOCIAL SECURITY WILL PROVIDE SOME INCOME IN THIS SITUATION, WE BELIEVE THAT SOME

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ANNUITY, EVEN A SMALL ONE, SHOULD BE PROVIDED FROM THE FUND. THE ANNUITY COULD BE CALCULATED ON THE AGE OF THE CHILD AT THE PARENT'S DEATH AND THE NUMBER OF YEARS IT WOULD BE PAID.

ANOTHER AREA OF CONCERN WE HAVE IS THE ABSENCE OF AN IMMEDIATE SURVIVOR ANNUITY IN THOSE INSTANCES WHERE THE EMPLOYEE WAS NOT YET ELIGIBLE TO RETIRE AT THE TIME OF DEATH. THE EFFECT OF THIS LACK OF IMMEDIATE ANNUITY MIGHT BE MINIMAL IN THE CASE OF A WORKING SPOUSE BUT IS POTENTIALLY DEVASTATING IN THE CASE OF A NONWORKING SPOUSE LEFT WITH DEPENDENT CHILDREN. IN THESE CASES, THERE WOULD BE NO SURVIVOR ANNUITY AND NO DEPENDENT CHILD ANNUITY FOR WHAT COULD CONCEIVABLY BE A LONG PERIOD OF TIME IN THE CASE OF AN EMPLOYEE WHO DIES RELATIVELY YOUNG. WE RECOMMEND THAT A SURVIVOR ANNUITY BEGIN ON THE FIRST DAY OF THE FIRST FULL MONTH AFTER THE EMPLOYEE'S DEATH AND THAT THE AMOUNT BE ACTUARIALLY DETERMINED BASED ON THE SURVIVING SPOUSE'S AGE.

THE BILL DOES NOT CONTAIN ANY REQUIREMENT FOR MANDATORY RETIREMENT FOR LAW ENFORCEMENT OFFICERS, AS IS PROVIDED UNDER THE CURRENT RETIREMENT SYSTEM. THE INCREASED YEARS OF SERVICE REQUIRED FOR AN IMMEDIATE ANNUITY FOR A LAW ENFORCEMENT OFFICER WILL RESULT IN AN OLDER WORKFORCE IN THE POSTAL INSPECTION SERVICE, AN OCCURRENCE WE DO NOT BELIEVE SUITABLE FOR VIGOROUS LAW ENFORCEMENT. THIS 5-YEAR EXTENSION IN ELIGIBILITY MAKES IT ALL THE MORE IMPERATIVE THAT THIS BILL CONTAIN A PROVISION SIMILAR TO THE CURRENT RETIREMENT SYSTEM ^{TO} ~~AND~~ PROVIDE FOR MANDATORY RETIREMENT AT AGE 55 FOR ⁹ ~~ALL~~ LAW ENFORCEMENT OFFICERS.

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IN CONCLUSION, WITH THE EXCEPTION OF THE CONCERNS EXPRESSED, WE BELIEVE THE BILL WILL PROVIDE A RETIREMENT SYSTEM FOR OUR EMPLOYEES WHICH FULFILLS THE MAJOR INGREDIENTS WE BELIEVE MAKE A GOOD RETIREMENT PROGRAM.

I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.